

**McGREGOR MUNICIPAL UTILITIES  
McGREGOR, IOWA**

**INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS  
AND  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS**

**JUNE 30, 2016**

**McGREGOR MUNICIPAL UTILITIES**  
**McGREGOR, IOWA**

**JUNE 30, 2016**

**TABLE OF CONTENTS**

	Page No.
Officials	1
Independent Auditor's Report	2-4
<b>Required Supplementary Information - Part I:</b>	
Management's Discussion and Analysis	5-9
<b>Basic Financial Statements:</b>	<b>Exhibit</b>
Business Type Activities Financial Statements:	
Statement of Net Position	A 10
Statement of Activities	B 11
Proprietary Fund Financial Statements:	
Statement of Net Position	C 12-13
Statement of Revenues, Expenses and Changes in Fund Net Position	D 14-15
Statement of Cash Flows	E 16-17
Notes to Financial Statements	18-29
<b>Required Supplementary Information - Part II:</b>	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - Proprietary Funds	30
Budget to GAAP Reconciliation	31
Notes to Required Supplementary Information - Budgetary Reporting	32
Schedule of the Utility's Proportionate Share of the Net Pension Liability	33
Schedule of Utility Contributions	34
Notes to Required Supplementary Information – Pension Liability	35
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	36-37
Schedule of Findings	38-40

**McGREGOR MUNICIPAL UTILITIES  
McGREGOR, IOWA**

**OFFICIALS**

**JUNE 30, 2016**

**(Before December 31, 2015)**

Name	Title	Term Expires
Charles Zahn	Chairman	12/31/19
Dennis Regal	Secretary	12/31/15
Craig Strutt	Trustee	12/31/15
Tammy Kinley	Trustee	12/31/17
Linda Boeke	Trustee	12/31/16
Kris Eulberg	Office Administrator	Indefinite
Greg Schiller	Attorney	Indefinite

**(After December 31, 2015)**

Name	Title	Term Expires
Charles Zahn	Chairman	12/31/19
Dennis Regal	Secretary	12/31/21
Craig Strutt	Trustee	12/31/21
Tammy Kinley	Trustee	12/31/17
Linda Boeke	Trustee	12/31/16
Kris Eulberg	Office Administrator	Indefinite
Greg Schiller	Attorney	Indefinite

## INDEPENDENT AUDITOR'S REPORT

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P.O. Box 743  
Dubuque, IA 52004-0743  
Phone | 563-582-7224  
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901 Spring Street  
P.O. Box 294  
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To the Board of Trustees  
McGregor Municipal Utilities  
McGregor, Iowa

### Report on the Financial Statements

[www.oconnorbrooks.com](http://www.oconnorbrooks.com)

We have audited the accompanying financial statements of the business type activities and each major fund of the McGregor Municipal Utilities, a component unit of the City of McGregor, Iowa, as of and for the year ended June 30, 2016, and the related Notes to Financial Statements, which collectively comprise the McGregor Municipal Utilities' basic financial statements listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the McGregor Municipal Utilities' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the McGregor Municipal Utilities' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinions on the Statements of Net Position.

### **Basis for Disclaimer of Opinion on Results of Operations and Cash Flows**

We did not observe the physical inventory as of June 30, 2015, since that date was prior to our engagement as auditors for the McGregor Municipal Utilities, nor did we perform procedures on accounts receivable or payables as of June 30, 2015 per the request of management.

### **Disclaimer of Opinion on Results of Operations and Cash Flows**

Because of the matter discussed in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the results of operations and cash flows for the year ended June 30, 2016. Accordingly, we do not express an opinion on the results of operations and cash flows for the year ended June 30, 2016.

### **Basis for Qualified Opinion on the Statements of Net Position**

McGregor Municipal Utilities did not implement GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. In our opinion, accounting principles generally accepted in the United States of America require the recognition of postemployment benefit liabilities and related disclosures. The effect on the financial statements of not implementing GASB No. 45 is not reasonably determinable.

### **Qualified Opinion on the Statements of Net Position**

In our opinion, except for the effects, if any, of not implementing GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as described in the Basis for Qualified Opinion paragraph, the statements of net position for the business type activities and each major fund as listed in the table of contents presents fairly, in all material respects, the financial position of the McGregor Municipal Utilities of the City of McGregor, Iowa, as of June 30, 2016, in conformity with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Omission of Required Supplementary Information about Funding Progress for the Retiree Health Plan*

Management has omitted the Schedule of Funding Progress for the Retiree Health Plan that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who consider it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economical, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

#### *Required Supplementary Information*

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the Utility's Proportionate Share of the Net Pension Liability and the Schedule of Utility Contributions on pages 5 through 9 and 30 through 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical

context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated February 3, 2017 on our consideration of the McGregor Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering McGregor Municipal Utilities' internal control over financial reporting and compliance.

O'CONNOR, BROOKS & CO., P.C.

*O'Connor Brooks & Co. P.C.*

Dubuque, Iowa  
February 3, 2017

## MANAGEMENT'S DISCUSSION AND ANALYSIS

McGregor Municipal Utilities provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2016. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

### FINANCIAL HIGHLIGHTS

- The Utilities' net position increased by \$51,085 throughout the year's operation to \$713,020.
- During the year, the Utilities' expenses were \$845,790.
- The Utilities' service revenues for the year were \$897,146.
- The Utilities also recorded unrestricted investment earnings of \$1,416.
- The Water Fund reported a net result of income and expenses of \$34,776.
- The Electric Fund reported a net result of income and expenses of \$16,309.
- Budgeted resources available for appropriation exceeded the actual by \$74,259.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts – *management's discussion and analysis* (this section), and the *basic financial statements*. The basic financial statements include two kinds of statements that present different views of the Utilities.

- The first two statements are *business type activities* financial statements that provide both long-term and short-term information about the Utilities' overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the Utilities' government, reports the Utilities' operations in more detail than the business type activities statements.
  - Proprietary fund statements offer short and long-term financial information about the activities the Utilities operates like businesses.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

Figure A-1 summarizes the major features of the *business type activities* financial statements, including the portion of the Utilities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-1

Major Features of McGregor Municipal Utilities Business Type Activities  
and Fund Financial Statements

	Business Type Activities	Fund Statements
		Proprietary Fund
Scope	Business type activities	Activities the Utilities operate similar to private businesses
Required financial statements	Statement of Net Position Statement of Activities	Statement of Net Position Statement of Revenues, Expenses, and Changes in Fund Net Position Statement of Cash Flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

### Business Type Activities

The business type activities financial statements report information about the Utilities as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the Utilities' assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two business type activities statements report the Utilities' net position and how it has changed. Net position - the difference between the Utilities' assets, deferred outflows of resources, liabilities and deferred inflows of resources - is one way to measure the Utilities' financial health, or position.

- Over time, increases or decreases in the Utilities' net position are indicators of whether its financial position is improving or deteriorating, respectively.
- To assess the Utilities' overall health, additional nonfinancial factors, such as changes in the Utilities' rates and the condition of the Utilities' equipment, need to be considered.



## Fund Financial Statements

The fund financial statements provide more detailed information about the business type activities. Funds are accounting devices that the Utilities use to keep track of specific sources of funding and spending for particular purposes.

The Utilities has one kind of fund:

- *Proprietary fund* - Services for which the Utilities charge customers a fee are generally reported in proprietary funds. Proprietary funds, like the business type activities statements, provide both long- and short-term financial information
  - In fact, the Utilities' enterprise funds (one type of proprietary fund) are the same as its business type activities, but provide more detail and additional information, such as cash flows.

## FINANCIAL ANALYSIS OF THE UTILITIES AS A WHOLE

### Summary and Analysis of Business Type Activities

The Utilities has produced business type activities financial statements using the accrual basis of accounting and economic resources measurement focus. The following tables present condensed information in net position and changes in net position for the year ended June 30, 2016.

Assets:	
Current assets	\$ 589,996
Restricted cash and cash equivalents	10,867
Capital assets	252,367
	-----
Total Assets	\$ 853,230
	-----
 Deferred Outflows of Resources	 \$ 15,805
	-----
 Liabilities	 \$ 135,027
	-----
 Deferred Inflows of Resources	 \$ 20,988
	-----
Net Position:	
Investment in capital assets, net of depreciation	\$ 252,367
Unrestricted	460,653
	-----
Total Net Position	\$ 713,020
	=====

The amount by which the Utilities' assets and deferred outflows from resources exceed its liabilities and deferred inflows of resources is called net position. At year end, the Utilities' net position was \$713,020. Of that amount, approximately \$252,367 was invested in capital assets, net of depreciation related to those assets. The remaining \$460,653 was unrestricted and available for future use as directed by the Board of Trustees.

Revenues:	
Charges for service	\$ 897,146
Miscellaneous income	24,713
Interest earned	1,416
	-----
Total Revenues	\$ 923,275
	-----
Business Type Activities Expenses:	
Electric	\$ 769,079
Water	76,711
	-----
Total Business Type Activities Expenses	\$ 845,790
	-----
Excess of Revenues Over Expenses	\$ 77,485
Other Financing Uses:	
Transfer to City of McGregor's Debt Service Fund	(26,400)
	-----
Increase in Net Position	\$ 51,085
Net Position Beginning of Year	661,935
	-----
Net Position End of Year	\$ 713,020
	=====

### **Net Position**

The Utilities' combined net position increased by \$51,085 throughout the year's operation to \$713,020. This includes \$1,416 of unrestricted investment earnings.

### **Changes in Net Position**

The Utilities' total revenues during the year were \$923,275. Nearly all of the Utilities' revenue comes from user fees. Total business type activities expenses during the year were \$845,790.

## **FINANCIAL ANALYSIS OF THE UTILITIES' FUNDS**

The Electric Fund net position increased by \$16,309 to \$518,993 primarily due to revenue from user charges exceeding operating expenses.

The Water Fund net position increased by \$34,776 to \$194,027 primarily due to revenue from user charges exceeding operating expenses.

## **BUDGETARY HIGHLIGHTS**

McGregor Municipal Utilities does not maintain a separate budget. Budgeted charges for service revenue and business type activities disbursements for both the electric and water funds are included as four line items on the City of McGregor budget approved by City Council. All changes in budgeted charges for service revenue and business type activities disbursements during the year were included in an amended City of McGregor budget approved by City Council. The Utilities acknowledged \$100,388 less in actual charges for services and \$104,653 less in actual business type activities disbursements than was included in the final budget. The Utilities also received \$1,416 of investment earnings and \$24,713 of miscellaneous income that were not budgeted for the year. The net effect of differences between the final budget and actual results was an excess of receipts over disbursements and other financing uses of \$30,394.

## **CAPITAL ASSETS AND TRANSFERS**

### **Capital Assets**

As of June 30, 2016, the Utilities had invested \$1,825,082 (\$252,367 net of accumulated depreciation) in a broad range of capital assets, including equipment, buildings, electric and water lines. This amount represents a net increase (including additions and deductions) of \$84,658 over last year. This year's major capital asset additions included a breaker, emissions equipment for a generator, and extensions to the distribution system.

### **Transfer to the City of McGregor's Debt Service Fund**

The Utilities have agreed to transfer \$2,200 per month to the City of McGregor's Debt Service Fund to partially fund a capital project of the City. The Utilities transferred \$26,400 to the City of McGregor's Debt Service Fund during the fiscal year ended June 30, 2016.

### **Economic Factors Bearing on the Utilities' Future**

The Utilities' two largest concerns for significant capital projects are its generators and its wells. When a generator unit expires, the Utility Board's options are to purchase a new generating unit, to purchase power at a higher rate to make up the difference in energy load or to reduce the electrical load within the service area.

In 2016, the Utility invested over \$68,000 for new emissions equipment and the installation of a datalogger unit to bring generator unit #1 in compliance with recent EPA emissions standards and to maintain the majority of the Utility's generating capabilities. The other two generator units have not been brought up to compliance with the new EPA standards at this time. The Utility also incurred costs of \$11,500 for the installation of a reconditioned breaker in Feeder 1 of the substation.

The Board hired IDS, Inc. to perform a preliminary inspection of the condition of generating units #2 and #3. The inspection found serious concerns regarding the condition of Unit #3. Due to these concerns and new EPA emissions requirements, the Board of Trustees is considering its options with generator units #2 and #3. At present, the Board has elected to purchase excess capacity through Dairyland Power Cooperative.

McGregor Municipal Utilities has set goals to reduce the community's annual kilowatt hour usage by 0.75% or 53,525 kWh's in 2016 and 2017. In order to meet these goals, rebates will continue to be provided as incentives to customers for purchasing energy efficient appliances and lighting for their homes and businesses. The Utility is also continuing to work on reducing electrical load by replacing street lights with LED units including retro-fit kits for the decorative downtown Main Street poles.

In 2013, the Utility began replacing electric and water meters to convert to electronic read radio meters. The new water meters are also lead-free. New electric meters cost approximately \$45, while new water meters cost approximately \$220. This project is ongoing and is expected to be completed in stages over the next seven to eight years in order to be feasible and cost effective.

## **CONTACTING THE UTILITIES' FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Utilities' finances and to demonstrate the Utilities' accountability for the money it receives. If you have questions about this report or need additional financial information, contact the McGregor Municipal Utilities office, 126 First Street, McGregor, IA 52157, 563-873-2258.

## **BASIC FINANCIAL STATEMENTS**

**McGREGOR MUNICIPAL UTILITIES  
McGREGOR, IOWA**

**STATEMENT OF NET POSITION  
JUNE 30, 2016**

	Business Type Activities
	-----
<b>Assets</b>	
Cash and cash equivalents	\$ 302,503
Receivables:	
Customer accounts and unbilled usage, net of allowance for doubtful accounts of \$2,400	131,333
Inventories	156,160
Restricted assets:	
Cash and cash equivalents	10,867
Capital assets, net of accumulated depreciation	252,367
	-----
Total Assets	\$ 853,230
	-----
<b>Deferred Outflows of Resources</b>	
Pension related deferred outflows	\$ 15,805
	-----
<b>Liabilities</b>	
Accounts payable	\$ 14,527
Wages and benefits payable	5,881
Customer deposits (payable from restricted assets)	10,867
Compensated absences	9,947
Due or payable after one year:	
Net pension liability	93,805
	-----
Total Liabilities	\$ 135,027
	-----
<b>Deferred Inflows of Resources</b>	
Unavailable revenues:	
Pension related deferred inflows	\$ 20,988
	-----
<b>Net Position</b>	
Net investment in capital assets	\$ 252,367
Unrestricted	460,653
	-----
Total Net Position	\$ 713,020
	=====

The accompanying notes are an integral part of these financial statements.

**McGREGOR MUNICIPAL UTILITIES  
McGREGOR, IOWA**

**STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2016**

	Expenses	Charges for Service	Operating Grants, Contributions	Capital Grants, Contributions	Total
<u>Function/Program:</u>	-----	-----	-----	-----	-----
<b>Business Type Activities:</b>					
Electric	\$ 769,079	\$ 775,840	\$ ---	\$ ---	\$ 6,761
Water	76,711	121,306	---	---	44,595
	-----	-----	-----	-----	-----
Total Business Type Activities	\$ 845,790	\$ 897,146	\$ ---	\$ ---	\$ 51,356
	=====	=====	=====	=====	-----
<b>General Revenues and Transfers:</b>					
Unrestricted investment earnings					\$ 1,416
Service line reimbursements					14,943
Miscellaneous					9,770
Transfer to City of McGregor's Debt Service Fund					(26,400)
					-----
Change in net position					\$ 51,085
					-----
Net position – beginning of year					\$ 661,935
					-----
Net position – end of year					\$ 713,020
					=====

The accompanying notes are an integral part of these financial statements.

**McGREGOR MUNICIPAL UTILITIES**  
**McGREGOR, IOWA**

**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**

**JUNE 30, 2016**

	Proprietary Funds		
	Electric	Water	Total
<b>Assets</b>			
Current Assets:			
Cash and cash equivalents	\$ 184,687	\$ 117,816	\$ 302,503
Receivables:			
Customer accounts and unbilled usage, net of allowance for doubtful accounts of \$2,100 and \$300 respectively	115,396	15,937	131,333
Inventories	123,943	32,217	156,160
Total Current Assets	\$ 424,026	\$ 165,970	\$ 589,996
Noncurrent Assets:			
Restricted cash and cash equivalents	\$ 10,867	\$ ---	\$ 10,867
Capital assets, net of accumulated depreciation	199,015	53,352	252,367
Total Noncurrent Assets	\$ 209,882	\$ 53,352	\$ 263,234
Total Assets	\$ 633,908	\$ 219,322	\$ 853,230
<b>Deferred Outflows of Resources</b>			
Pension related deferred outflows	\$ 13,295	\$ 2,510	\$ 15,805
<b>Liabilities</b>			
Current Liabilities:			
Accounts payable	\$ 5,451	\$ 9,076	\$ 14,527
Wages and benefits payable	5,881	---	5,881
Payable from restricted assets:			
Customer deposits	10,867	---	10,867
Compensated absences	9,947	---	9,947
Total Current Liabilities	\$ 32,146	\$ 9,076	\$ 41,222
Noncurrent Liabilities:			
Net pension liability	\$ 78,632	\$ 15,173	\$ 93,805
Total Liabilities	\$ 110,778	\$ 24,249	\$ 135,027

The accompanying notes are an integral part of these financial statements.

**McGREGOR MUNICIPAL UTILITIES  
McGREGOR, IOWA**

**STATEMENT OF NET POSITION  
PROPRIETARY FUNDS**

**JUNE 30, 2016**

	Proprietary Funds		
	Electric	Water	Total
<b>Deferred Inflows of Resources</b>			
Unavailable revenues:			
Pension related deferred inflows	\$ 17,432	\$ 3,556	\$ 20,988
<b>Net Position</b>			
Net investment in capital assets	\$ 199,015	\$ 53,352	\$ 252,367
Unrestricted	319,978	140,675	460,653
Total Net Position	\$ 518,993	\$ 194,027	\$ 713,020

The accompanying notes are an integral part of these financial statements.



**McGREGOR MUNICIPAL UTILITIES  
McGREGOR, IOWA**

**STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2016**

	Proprietary Funds		
	Electric	Water	Total
Operating Revenue:			
Charges for service	\$ 775,840	\$ 121,306	\$ 897,146
Service line reimbursements	---	14,943	14,943
Miscellaneous	8,475	1,295	9,770
Total Operating Revenue	\$ 784,315	\$ 137,544	\$ 921,859
Operating Expenses:			
Production Expenses:			
Wages, payroll taxes and benefits	\$ 62,583	\$ 11,171	\$ 73,754
Generator and boiler fuel	7,584	158	7,742
Power and pumping	---	6,506	6,506
Chemicals	---	247	247
Sales and use taxes	24,780	7,826	32,606
Insurance - general	8,133	3,447	11,580
Supplies	5,892	474	6,366
Maintenance material and labor	8,044	1,667	9,711
Miscellaneous	3,220	9	3,229
Purchase electrical power	485,072	---	485,072
Total Production Expenses	\$ 605,308	\$ 31,505	\$ 636,813
Distribution Expenses:			
Wages, payroll taxes and benefits	\$ 31,279	\$ 6,491	\$ 37,770
Truck expenses	4,661	1,519	6,180
Insurance - general	5,422	862	6,284
Supplies	6,652	2,138	8,790
Maintenance material and labor	7,861	3,168	11,029
Miscellaneous	2,390	2,021	4,411
Water lab tests	---	775	775
Total Distribution Expenses	\$ 58,265	\$ 16,974	\$ 75,239

The accompanying notes are an integral part of these financial statements.

**EXHIBIT "D" (Continued)**

**McGREGOR MUNICIPAL UTILITIES  
McGREGOR, IOWA**

**STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2016**

	Proprietary Funds		
	Electric	Water	Total
Operating Expenses: (Continued)			
Accounting and Collection Expenses:			
Wages, payroll taxes and benefits	\$ 57,373	\$ 11,181	\$ 68,554
Bad debts	(1,939)	41	(1,898)
Office supplies	5,679	1,644	7,323
Miscellaneous	4,610	1,501	6,111
Total Accounting and Collection Expenses	\$ 65,723	\$ 14,367	\$ 80,090
Administrative and General:			
Trustee and treasurer fees	\$ 1,200	\$ 800	\$ 2,000
Legal and professional	17,679	2,489	20,168
Supplies and miscellaneous	1,474	600	2,074
City - County garage	1,026	---	1,026
Energy efficiency programs	3,524	---	3,524
Total Administrative and General Expenses	\$ 24,903	\$ 3,889	\$ 28,792
Total Operating Expenses Before Depreciation	\$ 754,199	\$ 66,735	\$ 820,934
Depreciation	14,863	9,976	24,839
Total Operating Expenses	\$ 769,062	\$ 76,711	\$ 845,773
Operating Income	\$ 15,253	\$ 60,833	\$ 76,086
Non-Operating Revenue (Expenses):			
Interest income	\$ 1,073	\$ 343	\$ 1,416
Interest expense	(17)	---	(17)
Total Non-Operating Revenue	\$ 1,056	\$ 343	\$ 1,399
Excess of Revenues over Expenses	\$ 16,309	\$ 61,176	\$ 77,485
Other Financing Use:			
Transfer to City of McGregor's Debt Service Fund	---	(26,400)	(26,400)
Change in Net Position	\$ 16,309	\$ 34,776	\$ 51,085
Net Position Beginning of Year	502,684	159,251	661,935
Net Position End of Year	\$ 518,993	\$ 194,027	\$ 713,020

The accompanying notes are an integral part of these financial statements.

**McGREGOR MUNICIPAL UTILITIES  
McGREGOR, IOWA**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2016**

	Proprietary Funds		
	Electric	Water	Total
Cash Flows From Operating Activities:			
Cash received from customers and users	\$ 773,125	\$ 121,615	\$ 894,740
Cash received from other revenues	8,475	16,238	24,713
Cash paid for personal services	(154,602)	(30,844)	(185,446)
Cash paid to suppliers	(122,148)	(47,674)	(169,822)
Cash paid for purchased power	(485,072)	---	(485,072)
Net Cash Provided by Operating Activities	\$ 19,778	\$ 59,335	\$ 79,113
Cash Flows From Capital and Related Financing Activities:			
Acquisition of capital assets	\$ (83,981)	\$ (677)	\$ (84,658)
Interest paid	(17)	---	(17)
Transfer to City of McGregor's Debt Service Fund	---	(26,400)	(26,400)
Net Cash Used for Capital and Related Financing Activities	\$ (83,998)	\$ (27,077)	\$ (111,075)
Cash Flows From Investing Activities:			
Interest on investments	\$ 1,073	\$ 343	\$ 1,416
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (63,147)	\$ 32,601	\$ (30,546)
Cash and Cash Equivalents Beginning of Year	258,701	85,215	343,916
Cash and Cash Equivalents End of Year	\$ 195,554	\$ 117,816	\$ 313,370

The accompanying notes are an integral part of these financial statements.

**McGREGOR MUNICIPAL UTILITIES  
McGREGOR, IOWA**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2016**

	Proprietary Funds		
	Electric	Water	Total
Reconciliation of Operating Income to Net Cash			
Provided by Operating Activities:			
Operating income	\$ 15,253	\$ 60,833	\$ 76,086
Adjustments to reconcile operating income			
to net cash provided by operating activities:			
Depreciation expense	14,863	9,976	24,839
Bad debt expense	(1,939)	41	(1,898)
(Increase) decrease in:			
Customer accounts receivable and			
unbilled usage	(2,781)	309	(2,472)
Inventories, at cost	9,014	7,819	16,833
Deferred outflows of resources	(107)	54	(53)
Increase (decrease) in:			
Accounts payable	(12,531)	(18,442)	(30,973)
Wages and benefits payable	5,699	---	5,699
Compensated absences	(1,053)	---	(1,053)
Net pension liability	15,676	2,930	18,606
Customer deposits	66	---	66
Deferred inflows of resources	(22,382)	(4,185)	(26,567)
Net Cash Provided by Operating Activities	<u>\$ 19,778</u>	<u>\$ 59,335</u>	<u>\$ 79,113</u>
Reconciliation of Cash and Cash Equivalents at Year End			
to Specific Assets Included on the Statement of Net Position:			
Current Assets:			
Cash	\$ 184,687	\$ 117,816	\$ 302,503
Restricted Assets:			
Cash – Customer deposits	10,867	---	10,867
Cash and Cash Equivalents at Year End	<u>\$ 195,554</u>	<u>\$ 117,816</u>	<u>\$ 313,370</u>

The accompanying notes are an integral part of these financial statements.

**McGREGOR MUNICIPAL UTILITIES**  
**McGREGOR, IOWA**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**Note 1 - Summary of Significant Accounting Policies:**

The McGregor Municipal Utilities (the Utility) is a component unit of the City of McGregor, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board. The Utility provides electricity and water to properties within the City of McGregor and is governed by the Board of Trustees, who are appointed by the mayor and approved by the City Council, which exercises oversight responsibility under this criteria.

The financial statements of the McGregor Municipal Utilities have been prepared in conformity with U.S. generally accepted accounting principals (GAAP) as prescribed by the Governmental Accounting Standards Board.

**A. Reporting Entity**

For financial reporting purposes, the McGregor Municipal Utilities has included all funds, organizations, agencies, boards, commissions and authorities. The Utility has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Utility are such that exclusion would cause the Utility's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Utility to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Utility. The Utility has no component units which meet these criteria.

**B. Basis of Presentation**

Proprietary Fund Financial Statements – The Statement of Net Position and the Statement of Activities report information on all of the proprietary funds. For the most part, the effect of interfund activity has been removed from these statements. Business type activities rely to a significant extent on fees and charges for services.

The Statement of Net Position presents the Utility's proprietary assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Net position is reported in three categories:

*Invested in capital assets* consists of capital assets, net of accumulated depreciation.

*Restricted net position* results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

**McGREGOR MUNICIPAL UTILITIES**  
**McGREGOR, IOWA**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**Note 1 - Summary of Significant Accounting Policies: (Continued)**

**B. Basis of Presentation (Continued)**

*Unrestricted net position* consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Interest earnings and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for proprietary funds. Major individual proprietary funds are reported as separate columns in the fund financial statements.

The Utility reports the following major proprietary funds:

Enterprise:

The Water Fund is used to account for the operation and maintenance of the Utility's water system.

The Electric Fund is used to account for the operation and maintenance of the Utility's electric system.

**C. Measurement Focus and Basis of Accounting**

The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Utility's Enterprise Funds is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**McGREGOR MUNICIPAL UTILITIES  
McGREGOR, IOWA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**Note 1 - Summary of Significant Accounting Policies: (Continued)**

**D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Equity**

The following accounting policies are followed in preparing the financial statements:

Estimates - The preparation of financial statements in conformity with United States of America generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents – The cash balances of most Utility funds are pooled and invested. Investments consist of non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, have a maturity date no longer than one year.

Customer Accounts Receivable and Unbilled Usage – Accounts receivable are recorded in the Enterprise Funds at the time the service is billed. Unbilled usage for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which the service is provided.

The Utility uses the allowance method of accounting for doubtful customer accounts. The Utility estimates its allowance for doubtful accounts as a percentage of the customer accounts receivable. Balances still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for doubtful accounts and a credit to customer accounts receivable.

Inventories – Inventories consist of supplies, fuel oil and materials for distribution repair. Extensions are recognized as expense or capital improvements at the time they are put into service. Inventory items are valued at the lower of cost or market, using the first-in, first-out method.

Restricted Assets – Restricted assets include customer deposits restricted for application to unpaid customer accounts or for refund to customers.

Capital Assets – Capital assets include property, equipment and vehicles. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair not adding to the value of the asset or materially extend asset lives are not capitalized.

**McGREGOR MUNICIPAL UTILITIES**  
**McGREGOR, IOWA**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**Note 1 - Summary of Significant Accounting Policies (Continued)**

**D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Equity (Continued)**

Capital assets of the Utility are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	10-33 years
Generators and Equipment	8-25 years
Distribution System	20-25 years
Vehicles	5-10 years
Office Equipment	10 years
Interconnect	25 years

Deferred Outflows of Resources – Deferred outflows of resources represent a consumption of net position applicable to a future year(s) which will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the Utility after the measurement date but before the end of the Utility's reporting period.

Compensated Absences – Employees accumulate sick time and vacation for subsequent use. The Utility's policy provides for payout of accumulated vacation and comp time and prohibits payoff of accumulated sick time at termination of employment. The compensated absences liability has been computed based on rates of pay at June 30, 2016.

Long-Term Liabilities – In the business type activities and proprietary fund financial statements, long-term obligations are reported as liabilities in the business type activities Statement of Net Position and the proprietary fund Statement of Net Position.

Pensions – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.



**McGREGOR MUNICIPAL UTILITIES  
McGREGOR, IOWA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**Note 1 - Summary of Significant Accounting Policies (Continued)**

**D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Equity (Continued)**

Deferred Inflows of Resources – Deferred inflows of resources represent an acquisition of net position applicable to a future year(s) which will not be recognized as an inflow of resources (revenue) until that time. Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the Statement of Net Position consist of the unamortized portion of the net difference between projected and actual earnings on IPERS' investments.

**E. Budgets and Budgetary Accounting**

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2016, disbursements did not exceed the amount budgeted in the business type activities function.

**Note 2 – Cash and Cash Equivalents:**

The Utility's deposits in banks at June 30, 2016, were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utility is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utility had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 72.

**McGREGOR MUNICIPAL UTILITIES**  
**McGREGOR, IOWA**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**Note 3 – Capital Assets:**

Capital assets activity for the year ended June 30, 2016 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Business Type Activities:</b>	-----	-----	-----	-----
Capital assets not being depreciated:				
Land	\$ 1,140	\$ ---	\$ ---	\$ 1,140
	-----	-----	-----	-----
Total Capital Assets Not Being Depreciated	\$ 1,140	\$ ---	\$ ---	\$ 1,140
	-----	-----	-----	-----
Capital Assets Being Depreciated:				
Buildings	\$ 71,527	\$ ---	\$ ---	\$ 71,527
Office equipment	25,370	---	---	25,370
Generators and equipment	657,749	---	---	657,749
Pump and equipment	45,439	---	---	45,439
Chlorinator	3,960	---	---	3,960
Distribution system	706,816	84,658	---	791,474
Interconnect	64,809	---	---	64,809
Vehicles	107,200	---	---	107,200
Well	12,005	---	---	12,005
Reservoir	44,409	---	---	44,409
	-----	-----	-----	-----
Total Capital Assets Being Depreciated	\$ 1,739,284	\$ 84,658	\$ ---	\$ 1,823,942
	-----	-----	-----	-----
Less Accumulated Depreciation For:				
Buildings	\$ 61,660	\$ 1,295	\$ ---	\$ 62,955
Office equipment	25,105	265	---	25,370
Generators and equipment	631,146	4,917	---	636,063
Pump and equipment	27,279	2,436	---	29,715
Chlorinator	3,960	---	---	3,960
Distribution system	578,586	14,151	---	592,737
Interconnect	64,809	---	---	64,809
Vehicles	107,200	---	---	107,200
Well	12,005	---	---	12,005
Reservoir	36,126	1,775	---	37,901
	-----	-----	-----	-----
Total Accumulated Depreciation	\$ 1,547,876	\$ 24,839	\$ ---	\$ 1,572,715
	-----	-----	-----	-----
Total Capital Assets Being Depreciated, Net	\$ 191,408	\$ 59,819	\$ ---	\$ 251,227
	-----	-----	-----	-----
Business Type Activities Capital Assets, Net	\$ 192,548	\$ 59,819	\$ ---	\$ 252,367
	=====	=====	=====	=====

**McGREGOR MUNICIPAL UTILITIES**  
**McGREGOR, IOWA**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**Note 3 – Capital Assets: (Continued)**

Depreciation expense was charged to functions of the proprietary funds as follows:

Business type activities:

Electric	\$ 14,863
Water	9,976
	-----
Total depreciation expense – business type activities	\$ 24,839
	=====

**Note 4 – Long-Term Liabilities:**

A summary of changes in long term liabilities for the year ended June 30, 2016 is as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	-----	-----	-----	-----	-----
Business Type Activities:					
Net pension liability	\$ 75,199	\$ 18,606	\$ ---	\$ 93,805	\$ ---
	=====	=====	=====	=====	=====

**Note 5 – Transfer to City of McGregor’s Debt Service Fund:**

The Utility has agreed to transfer \$2,200 per month to the City of McGregor to help pay the City’s general obligation debt related to a capital project. The Utility transferred \$26,400 from the Water Fund to the City of McGregor’s Debt Service Fund during the fiscal year ended June 30, 2016.

**Note 6 – Pension Plan:**

Plan Description – IPERS membership is mandatory for employees of the Utility, except for those covered by another retirement system. Employees of the Utility are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees’ Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, P.O. Box 9117, Des Moines, Iowa 50306-9117 or at [www.ipers.org](http://www.ipers.org).

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

**McGREGOR MUNICIPAL UTILITIES**  
**McGREGOR, IOWA**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**Note 6 – Pension Plan: (Continued)**

Pension Benefits – A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.25% for each month the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits – A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions – Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board.

**McGREGOR MUNICIPAL UTILITIES**  
**McGREGOR, IOWA**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**Note 6 – Pension Plan: (Continued)**

The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the Utility contributed 8.93% of covered payroll, for a total rate of 14.88%.

The Utility's contributions to IPERS for the year ended June 30, 2016 were \$11,805.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2016, the Utility reported a liability of \$93,805 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Utility's proportion of the net pension liability was based on the Utility's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2015, the Utility's proportion was 0.001899%, which was an increase of 0.000003% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Utility recognized pension expense of \$3,815. At June 30, 2016, the Utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	-----	-----
Difference between expected and actual experience	\$ 1,417	\$ ---
Change in assumptions	2,583	---
Net difference between projected and actual earnings on IPERS' investments	---	7,807
Changes in proportion and differences between Utility contributions and proportionate share of contributions	---	13,181
Utility contributions subsequent to the measurement date	11,805	---
	-----	-----
	\$ 15,805	\$ 20,988
	=====	=====

**McGREGOR MUNICIPAL UTILITIES**  
**McGREGOR, IOWA**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**Note 6 – Pension Plan: (Continued)**

\$11,805 reported as deferred outflows of resources related to pensions resulting from Utility contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30, -----	
2017	\$ (6,715)
2018	(6,715)
2019	(6,715)
2020	3,033
2021	125
	-----
	\$ (16,987)
	=====

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement, as follows:

Rate of inflation (effective June 30, 2014)	3.00% per annum.
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 1990)	4.00% per annum based on 3.00% inflation and 1.00% real wage inflation.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage

**McGREGOR MUNICIPAL UTILITIES**  
**McGREGOR, IOWA**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**Note 6 – Pension Plan: (Continued)**

and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Core plus fixed income	28%	2.04%
Domestic equity	24	6.29
International equity	16	6.75
Private equity/debt	11	11.32
Real estate	8	3.48
Credit opportunities	5	3.63
U.S. TIPS	5	1.91
Other real assets	2	6.24
Cash	1	(0.71)
Total	100%	

Discount Rate – The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Utility will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Utility's Proportional Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the Utility's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the Utility's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.50%) or 1% higher (8.50%) than the current rate.

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
Utility's proportionate share of the net pension liability	\$ 164,236	\$ 93,805	\$ 34,356

IPERS' Fiduciary Net Position – Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at [www.ipers.org](http://www.ipers.org).

Payables to IPERS – At June 30, 2016, the Utility reported payables to IPERS of \$0 for legally required employer contributions and \$0 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

**McGREGOR MUNICIPAL UTILITIES**  
**McGREGOR, IOWA**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**Note 7 – Firm Power Agreement:**

On January 7, 2008, the Utility entered into a “Firm Power Agreement” with Dairyland Power Cooperative. Under the terms of the agreement, the Utility will purchase from Dairyland Power Cooperative (rather than generate) the majority of its electrical energy. This Agreement became effective on May 1, 2008, and remains in effect through April 30, 2028. This Agreement shall renew for an intermediate term thereafter unless terminated by either party by written notice of at least 24 months to the other party. The Utility paid \$485,072 for purchased power under this agreement for the fiscal year ended June 30, 2016.

**Note 8 – Risk Management:**

The Utility is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**Note 9 – Subsequent Events:**

The Utility’s management has evaluated subsequent events and transactions for potential financial statement recognition and disclosure through February 3, 2017, the date the financial statements were available to be issued.



## **REQUIRED SUPPLEMENTARY INFORMATION**

**McGREGOR MUNICIPAL UTILITIES  
McGREGOR, IOWA**

**BUDGETARY COMPARISON SCHEDULE OF  
RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES –  
BUDGET AND ACTUAL (CASH BASIS) –  
PROPRIETARY FUNDS**

**YEAR ENDED JUNE 30, 2016**

	Proprietary Funds Actual	Budgeted Amounts		Final to Actual Variance
	-----	-----	-----	-----
Receipts:				
Charges for services	\$ 894,740	\$1,065,943	\$ 995,128	\$ (100,388)
Miscellaneous	24,713	---	---	24,713
Investment earnings	1,416	---	---	1,416
	-----	-----	-----	-----
Total Revenues	\$ 920,869	\$1,065,943	\$ 995,128	\$ (74,259)
	-----	-----	-----	-----
Disbursements:				
Business type activities	\$ 925,015	\$ 972,151	\$1,029,668	\$ 104,653
	-----	-----	-----	-----
Excess (Deficiency) of Receipts Over (Under) Disbursements	\$ (4,146)	\$ 93,792	\$ (34,540)	\$ 30,394
Other Financing Use:				
Transfer to City of McGregor's Debt Service Fund	(26,400)	(26,400)	(26,400)	---
	-----	-----	-----	-----
Excess (Deficiency) of Receipts Over (Under) Disbursements and Other Financing Uses	\$ (30,546)	\$ 67,392	\$ (60,940)	\$ 30,394
Balances Beginning of Year	343,916	343,916	343,916	---
	-----	-----	-----	-----
Balances End of Year	\$ 313,370	\$ 411,308	\$ 282,976	\$ 30,394
	=====	=====	=====	=====

See accompanying independent auditor's report.

**McGREGOR MUNICIPAL UTILITIES**  
**McGREGOR, IOWA**

**BUDGET TO GAAP RECONCILIATION**  
**YEAR ENDED JUNE 30, 2016**

	Proprietary Funds Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
Revenues	\$ 920,869	\$ 2,406	\$ 923,275
Expenditures/Expenses	925,015	(79,225)	845,790
Net	\$ (4,146)	\$ 81,631	\$ 77,485
Other Financing Use	(26,400)	---	(26,400)
Beginning Fund Balances/Net Position	343,916	318,019	661,935
Ending Fund Balances/Net Position	<u>\$ 313,370</u>	<u>\$ 399,650</u>	<u>\$ 713,020</u>

See accompanying independent auditor's report.

**McGREGOR MUNICIPAL UTILITIES  
McGREGOR, IOWA**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –  
BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2016**

McGregor Municipal Utilities prepares a budget on the cash basis of accounting for the Electric and Water funds and submits it to the City Council. In accordance with the Code of Iowa, the City Council annually adopts a budget, which includes the Utility, on the cash basis following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon classes of disbursements known as functions, not by fund. The Utility's disbursements are budgeted in the business type activities function. During the year, the Utility adopted one budget amendment, increasing budgeted disbursements by \$57,517.

During the fiscal year ended June 30, 2016, disbursements did not exceed the amount budgeted.

**McGREGOR MUNICIPAL UTILITIES  
McGREGOR, IOWA**

**SCHEDULE OF THE UTILITY'S PROPORTIONATE  
SHARE OF THE NET PENSION LIABILITY**

**IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
FOR THE LAST TWO YEARS\***

**REQUIRED SUPPLEMENTARY INFORMATION**

	2016 -----	2015 -----
Utility's proportion of the net pension liability	0.001899%	0.289556%
Utility's proportionate share of the net pension liability	\$ 93,805	\$ 75,199
Utility's covered-employee payroll	\$ 130,078	\$ 124,076
Utility's proportionate share of the net pension liability as a percentage of its covered-employee payroll	72.11%	60.61%
IPERS' net position as a percentage of the total pension liability	85.19%	87.61%

\* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding year.

**Note:** GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Utility will present information for those years for which information is available.

**MCGREGOR MUNICIPAL UTILITIES  
MCGREGOR, IOWA**

**SCHEDULE OF UTILITY CONTRIBUTIONS**

**IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
LAST 4 FISCAL YEARS**

**REQUIRED SUPPLEMENTARY INFORMATION**

	2016	2015	2014	2013
	-----	-----	-----	-----
Statutorily required contributions	\$ 11,805	\$ 11,616	\$ 11,080	\$ 12,724
Contributions in relation to the statutorily required contribution	(11,805)	(11,616)	(11,080)	(12,724)
	-----	-----	-----	-----
Contribution deficiency (excess)	\$ ---	\$ ---	\$ ---	\$ ---
	=====	=====	=====	=====
Utility's covered-employee payroll	\$ 132,195	\$ 130,078	\$ 124,076	\$ 146,759
Contributions as a percentage of covered- employee payroll	8.93%	8.93%	8.93%	8.67%

See accompanying independent auditor's report.

**MCGREGOR MUNICIPAL UTILITIES  
MCGREGOR, IOWA**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION LIABILITY**

**YEAR ENDED JUNE 30, 2016**

*Changes of benefit terms:*

Legislation enacted in 2010 modified benefit terms for Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Legislative action in 2008 transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

*Changes of assumptions:*

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in future years. It also included the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate in the calculation of the UAL amortization payments.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL  
CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

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McGregor, Iowa

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We have audited in accordance with U.S. general accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the business type activities and each major fund of the McGregor Municipal Utilities, a component unit of the City of McGregor, Iowa, as of and for the year ended June 30, 2016, and the Related Notes to Financial Statements, which collectively comprise the McGregor Municipal Utilities' basic financial statements, and have issued our report thereon dated February 3, 2017. Our report expressed a qualified opinion on the financial position of the business-type activities and each major fund of McGregor Municipal Utilities due to the Utilities not implementing GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions and a disclaimer of opinion on the results of operations and cash flows.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered McGregor Municipal Utilities' internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of McGregor Municipal Utilities' internal control. Accordingly, we do not express an opinion on the effectiveness of McGregor Municipal Utilities' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies in internal control such that there is a reasonable possibility a material misstatement of McGregor Municipal Utilities' financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings and Questioned Costs as items I-A-16, I-B-16, and I-C-16 to be material weaknesses.



### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the McGregor Municipal Utilities financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the McGregor Municipal Utilities' operations for the year ended June 30, 2016, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the entities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

### McGregor Municipal Utilities' Responses to the Findings

McGregor Municipal Utilities' responses to the findings identified in our audit are described in the accompanying Schedule of Findings. McGregor Municipal Utilities' responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Utilities' internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Utilities' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the McGregor Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

O'CONNOR, BROOKS & CO., P.C.

*O'Connor Brooks & Co., P.C.*

Dubuque, Iowa  
February 3, 2017

**McGREGOR MUNICIPAL UTILITIES  
McGREGOR, IOWA**

**SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2016**

**Part I: Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**MATERIAL WEAKNESSES:**

I-A-16     **Segregation of Duties** – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. It was noted that one employee performs most duties over the areas of cash, receipts, disbursements, payroll, utility billing, and financial reporting. The result is that intentional or unintentional errors or unauthorized transactions could occur and not be detected in a timely manner.

The Utilities have implemented procedures to mitigate the effects of a lack of segregation of duties including having a board member review the bank statements and bank reconciliations.

We recognize segregation of duties is difficult with a limited budget and a limited number of employees; however, we feel it is important the Board of Trustees and Management be aware of the potential for problems resulting from a lack of segregation of duties and should consistently be looking for ways to improve the Utilities' internal controls.

**Recommendation** – We recommend the Utilities continue the procedures implemented to mitigate the effects of a lack of segregation of duties. We also recommend the Utilities attempt to segregate duties as much as possible considering the size of the Utilities. Where it is not possible to segregate incompatible duties from one employee, it is important for supervisory personnel to increase their review of the work performed by the employee and to rotate duties wherever possible. The Utilities should periodically review its operating procedures to obtain the maximum internal control under the circumstances.

**Response** – We will continue to perform the procedures already implemented to mitigate the effects of a lack of segregation of duties. We will also attempt to segregate duties as much as possible with the existing personnel.

**Conclusion** – Response is accepted.

**McGREGOR MUNICIPAL UTILITIES  
McGREGOR, IOWA**

**SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2016**

**Part I: Findings Related to the Financial Statements: (Continued)**

**MATERIAL WEAKNESSES: (Continued)**

I-B-16     **Adjusting Journal Entries** - Material adjusting journal entries were provided to management to represent a fair presentation of the financial statements. Misstatements in the financial statements could impair management and the Board of Trustees' ability to make informed and timely financial decisions.

**Recommendation** - Management should review account balances at fiscal year-end to ensure that all information is included and is recorded properly.

**Response** - We will review account balances at year-end to ensure all financial information is included and is recorded properly.

**Conclusion** - Response is accepted

I-C-16     **Financial Statement Presentation and Disclosures** - Reporting the Utilities' financial information in accordance with GAAP requires management to possess sufficient accounting knowledge to select and apply accounting principles and prepare year end financial statements and footnote disclosures. The Utilities' management team does not include someone with those qualifications and training to fulfill these responsibilities, which is a common situation in small governmental entities. As a result, there is a higher risk that financial statement or footnote disclosure errors or omissions would not be detected and corrected by management in a timely manner.

**Recommendation** - Obtaining additional GAAP knowledge from relevant accounting literature and attending professional education courses should assist management in their ability to take responsibility for reliable GAAP financial statements.

**Response** - We will consider having management obtain additional GAAP knowledge to assist in the preparation of reliable GAAP financial statements.

**Conclusion** - Response is accepted.

**McGREGOR MUNICIPAL UTILITIES  
McGREGOR, IOWA**

**SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2016**

**Part II: Other Findings Related to Required Statutory Reporting:**

- II-A-16    **Certified Budget** – The budget certified by the City of McGregor includes an amount for the McGregor Municipal Utilities. Disbursements during the fiscal year ended June 30, 2016 did not exceed the amount budgeted
- II-B-16    **Questionable Expenditures** – No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- II-C-16    **Travel Expense** – No expenditures of Utility money for travel expenses of spouses of Utility officials or employees were noted.
- II-D-16    **Business Transactions** – No business transactions between the Utility and the Utility's directors or employees were noted.
- II-E-16    **Bond Coverage** – Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-16    **Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes which were not.
- II-G-16    **Deposits and Investments** – We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utility's investment policy.